

## Message Text

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R 091759Z DEC 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 8609

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

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C O N F I D E N T I A L SECTION 1 OF 3 LONDON 19919

DEPARTMENT PASS TREASUY

E.O. 11652: GDS

TAGS: PINT, PGOV, ECON, UK

SUBJECT: THE ECONOMICS OF "THE RIGHT APPROACH":

DIAGNOSIS, PRESCRIPTION, AND PROGNOSIS

REF: LONDON 15830, 16830 AND 17581

SUMMARY. "THE RIGHT APPROACH" (TRA), THE STATEMENT OF  
CONSERVATIVE STRATEGIES ISSUED JUST PRIOR TO THIS YEAR'S  
CONSERVATIVE CONFERENCE, GIVES SOME INSIGHT INTO CON-  
SERVATIVE VIEWS TN BRITAIN'S ECONOMIC CRISIS. IT ALSO  
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OFFERS A GLIMPSE AT POLICIES CONSERVATIVES WOULD SEEK TO

INTRODUCE (WHEN THEY RETURN TO POWER) AND PROVIDES AT LEAST A PARTIAL BASE FOR ASSESSMENT OF THE QUESTION OF WHETHER THE CONSERVATIVES MIGHT, IN POWER, COME UP WITH VIABLE SOLUTIONS.

TRA IS MORE SUCCESSFUL IN DESCRIBING THE ROOTS OF BRITAIN'S ECONOMIC PROBLEMS THAN IT IS IN OUTLINING CONSERVATIVE ECONOMIC POLICIES TO MEET THEM. THIS IS DELIBERATELY SO, FOR THE CONSERVATIVES AT THIS STAGE ARE INSISTENT ON AN ELEMENT OF PRAGMATISM IN ANNOUNCING ECONOMIC POLICIES. THEY DO NOT WANT TO BE RETURNED TO POWER ENCUMBERED WITH A HEAVY ARSENAL OF POLICIES TO WHICH THEY ARE ELECTORALLY COMMITTED; RATHER, THEY WANT TO RETAIN FLEXIBILITY IN THEIR POLICIES IN ORDER TO KEEP STEP WITH THE CHANGING AND EVOLVING ECONOMIC SITUATION. THE SCARCITY OF FIRM COMMITMENTS IN THEIR POLEMIC IS A GOOD TACTIC, REFLECTING TRADITIONAL VIEWS THAT THE CONSERVATIVES HAVE ALWAYS BEEN A PARTY OF PRAGMATISM (I.E., PRACTICAL POLICIES) RATHER THAN DOGMA AND DOCTRINE. THEY WILL CONTINUE TO SEEK 1) TO ESTABLISH CONSERVATIVE BONA FIDES AS AN ALTERNATIVE GOVERNMENT AND 2) TO AVOID TOO MANY PROGRAMMATIC COMMITMENTS IN ADVANCE OF THE CALLING OF GENERAL ELECTIONS. END SUMMARY.

1. INTRODUCTION: "THE RIGHT APPROACH" PROVIDES A USEFUL RESTATEMENT OF CONSERVATIVE VIEWS, PARTICULARLY TIMED IMMEDIATELY PRIOR TO THIS YEAR'S ANNUAL PARTY CONFERENCE. ITS PUBLICATION AT THAT TIME WAS DICTATED BOTH BY PARTY INTERNAL STRESSES AS WELL AS THE FELT NEED TO PROVIDE THE WIDER ELECTORATE WITH A COGENT AND COHERENT RESTATEMENT OF CONSERVATIVE PRINCIPLES. IN A SENSE IT WAS A MID-TERM (THAT IS, PRE-ELECTION) MINIMANIFESTO, REPRESENTING A CROSS-SECTION OF VIEWS WITHIN THE PARTY ON WHICH ALL WINGS OF THE PARTY COULD AGREE.

2. WE HAVE EXPLORED SOME OF THE POLITICAL ASPECTS OF TRA IN LONDON 15830. WHILE THE PARTY HAS MADE IT CLEAR THAT TRA IS BY NO MEANS A DEFINITIVE STATEMENT OF PARTY VIEWS AND POLICIES, CALLING THE DOCUMENT A STATEMENT OF CONSERVATIVE "PRINCIPLES," WE ARE HEREWITH TAKING A SECOND

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LOOK AT THE DOCUMENT WITH A VIEW TO ECONOMIC POLICIES IT ESPOUSES OR HINTS AT, AND THE IMPLICATIONS AND POSSIBLE PROSPECTS FOR SUCCESS OF THESE POLICIES.

3. DIAGNOSIS: TRA PRESENTS A CONVENTIONAL TORY VIEW OF THE ILLS OF THE BRITISH ECONOMY (FOR THE LABOR GOVERNMENT'S VIEWS OF THE ECONOMY, SEE LONDON 17660). THE BRITISH ECONOMY, THE CONSERVATIVES SAY, SUFFERS "FROM

LOW PRODUCTIVITY AND LOW PROFITS, AND THEREFORE LOW INVESTMENT AND INDUSTRIAL STAGNATION. MOST RECENTLY WE HAVE ENDURED A WOUNDING BOUT OF INFLATION, LEADING TO VERY HIGH UNEMPLOYMENT, AND WE ARE NOW HEAVILY IN DEBT."

4. CONSERVATIVE POLICY THEREFORE IS AIMED AT REDUCING

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THE DEBT BURDEN, MASTERING INFLATION WHICH WOULD LEAD TO A FALL IN UNEMPLOYMENT, AND RESUMING SOUNDLY-BASED ECONOMIC EXPANSION. THESE GOALS "CANNOT BE ACHIEVED WITHOUT RESTRAINT, SACRIFICE, AND A CHANGE IN DIRECTION."  
NORTH SEA OIL WILL NOT BE A WAY OUT AND WILL NOT PUT

RIGHT STRUCTURAL WEAKNESS IN THE BRITISH ECONOMY.

5. THE ANALYSIS OF BRITAIN'S FUNDAMENTAL ECONOMIC PROBLEMS IN TRA DRAWS HEAVILY ON THE THESIS ADVANCED BY OXFORD ECONOMISTS BACON AND ELTIS, WHO ARGUE THAT OVER TIME THE PUBLIC SECTOR OF THE BRITISH ECONOMY HAS APPROPRIATED A DISPROPORTIONATE SHARE OF TOTAL AVAILABLE ECONOMIC RESOURCES, THEREBY REDUCING THE SHARE AVAILABLE  
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TO THE PRODUCTIVE MARKET SECTOR. THIS HAS LED TO RAPID GROWTH IN THE PUBLIC SECTOR LABOR FORCE AND LEFT A PROGRESSIVELY SMALLER AND LESS EFFICIENT MARKET SECTOR TO MEET EXISTING LEVELS OF DEMAND FOR GOODS AND SERVICES, A TASK WHICH HAS PROVED IMPOSSIBLE WITHOUT RISING IMPORTS AND INCREASING INFLATION.

6. PRESCRIPTION: TRA ADVOCATES BRINGING THE ECONOMY INTO BALANCE. THE FIRST ESSENTIAL IN ECONOMIC MANAGEMENT MUST BE THE CONQUEST OF INFLATION, WHICH ENTAILS A STEADY AND DISCIPLINED MONETARY POLICY. THIS WILL REQUIRE A REDUCTION IN GOVERNMENT BORROWING AND ANNOUNCEMENT OF CLEAR TARGETS FOR MONETARY EXPANSION.

7. CONSERVATIVES EMPHASIZE THE NECESSITY OF PUBLIC EXPENDITURE CUTS TO BRING THE ECONOMY BACK INTO BALANCE, AVOID AN EXPLOSION IN THE MONEY SUPPLY AND AN ACCELERATION OF THE RISE IN PRICES. CUTS CAN BE ACHIEVED THROUGH 1) ELIMINATION OF SOME SOCIALIST POLICIES (COMMUNITY LAND ACT, NATIONALIZATION PLANS); 2) REDUCTION OF SUBSIDIES (FOOD AND HOUSING); AND 3) BETTER MANAGEMENT (I.E., MORE EFFECTIVE CONTROL OF COSTS AND ELIMINATION OF WASTE AND EXTRAVAGANCE). SOME REDUCTION OF PUBLIC SERVICES IS PROBABLY "INESCAPABLE."

8. TO PARALLEL THE LOWER GOVERNMENT ECONOMIC PROFILE, CONSERVATIVES ADVOCATE "CREATION OF A CLIMATE FOR EXPANSION." THIS DEPENDS ON HIGHER PROFITS, THE KEY TO GREATER INVESTMENT. PROFITS WOULD BE ENCOURAGED BY RELAXATION OF PRICE CONTROLS AS WELL AS TAX REDUCTION AND REFORM TO IMPROVE CORPORATE INCENTIVES. NATIONALIZED INDUSTRIES WOULD REMAIN IN PUBLIC HANDS BUT WOULD BE MANAGED ON A SOUND COMMERCIAL BASIS. THE CONSERVATIVES, THE TRA SAYS, ARE NOT A LAISSEZ-FAIRE PARTY; THE STATE'S ROLE WOULD BE THAT OF A TRUSTEE TO THE WHOLE COMMUNITY, HOLDING THE BALANCE BETWEEN DIFFERENT INTERESTS. BUT, GOVERNMENT INTERVENTION IN THE ECONOMY SHOULD BE STRICTLY LIMITED TO DEFINED PURPOSES, JUSTIFIED BY PARTICULAR CIRCUMSTANCES RATHER THAN BY DOCTRINAIRE THEORIES.

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9. EMBASSY PROGNOSIS: THE APPLICABILITY OF THE TRA PRINCIPLES DEPENDS HEAVILY ON THE NATURE OF THE SCENE INHERITED BY A TORY GOVERNMENT. AN ELECTION IN THE NEAR TERM CONTINUES TO SEEM UNLIKELY. THUS, IT APPEARS LIKELY THAT THE CURRENT LABOR GOVERNMENT MAY HAVE GONE SOME DISTANCE TOWARD INTRODUCING SOME OF THE PROGRAMS ESPOUSED IN TRA BY THE TIME THE TORIES ARE RETURNED. WHEN DETAILS OF THE IMF-HMG NEGOTIATIONS ARE MADE PUBLIC, PROBABLY BY YEAR-END, THE AGREED PACKAGE IS LIKELY TO ENTAIL SPENDING CUTS AND MONETARY TARGETS WHICH ARE IN LINE WITH THE TRA.

10. THAT LEAVES INDUSTRIAL POLICY AND SOCIAL POLICY. THESE ARE LIKELY TO BE CONTENTIOUS AREAS. JUST HOW CONTENTIOUS WILL DEPEND ON THE SIZE OF A TORY MAJORITY AND ITS WILLINGNESS AND/OR ABILITY TO UNDO 30 YEARS OF SOCIAL AND INDUSTRIAL ENGINEERING.

11. BUT WHEN THE ELECTION COMES, THE CONSERVATIVES MAY WIN OR LOSE NOT SO MUCH BECAUSE OF THE POLICIES THEY WILL THEN BE ADVOCATING BUT BECAUSE OF THE FACT THAT THEY ARE OPPOSING LABOR. AS THE RECENT BY-ELECTIONS HAVE SHOWN, BRITISH VOTERS INDICATED THEIR LACK OF SUPPORT FOR LABOR EITHER BY VOTING CONSERVATIVE OR BY STAYING AWAY (LONDON 17828). SHOULD A GENERAL ELECTION BE HELD IN THE NEAR FUTURE, WE EXPECT THAT THE CONSERVATIVES WOULD DO WELL AND BE RETURNED TO POWER AS THE LARGEST PARTY IN PARLIAMENT, PERHAPS WITHOUT AN ABSOLUTE MAJORITY (DEPENDING ON HOW SCOTLAND VOTES).

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12. MOST VOTERS WOULD PROBABLY NOT BE VOTING FOR OR AGAINST THE PRINCIPLES ESPOUSED IN TRA. NONETHELESS, TRA DOES GIVE US A GUIDE AS TO WHAT CONSERVATIVES WOULD ATTEMPT TO DO (SEE ABOVE). IT DOES NOT DEAL WITH THE PROBLEMS THE CONSERVATIVES WOULD EXPERIENCE IN TRYING TO INTRODUCE THEIR PROPOSALS OR OFFER A MEASURING STICK TO HOW WELL CONSERVATIVE POLICIES WOULD SUCCEED.

13. THE POSSIBLE EFFECTIVENESS OF CONSERVATIVE POLICIES IN SOLVING BRITAIN'S ECONOMIC PROBLEMS/IS THEREFORE ALMOST IMPOSSIBLE TO JUDGE, FOR THEY WOULD BE INTRODUCED AT SOME AS YET INDEFINITE TIME IN THE FUTURE IN A DIS-  
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FERENT ECONOMIC SITUATION. THERE WOULD BE, OF COURSE, OBVIOUS DIFFICULTIES FOR A NEW CONSERVATIVE GOVERNMENT AND BASIC SHORTCOMINGS OF THE BRITISH ECONOMY WOULD NOT BE CHANGED AS A RESULT OF AN ELECTION. THE DANGERS OF A DISHARMONIOUS RELATIONSHIP BETWEEN THE TRADE UNIONS AND THE TORIES WOULD LOOM LARGE. TRA MAKES IT CLEAR THAT A CONSERVATIVE GOVERNMENT WOULD SEEK TO CONSULT WITH THE UNIONS BUT AT THE SAME TIME SEEK TO CURTAIL THE ROLE OF THE UNIONS. THE TRADE UNIONS FOR THEIR PART WOULD CONTINUE TO BE SUSPICIOUS OF SOME OF THE CONSERVATIVE PRO-

POSALS TO INCREASE PROFITABILITY, ELIMINATE SUBSIDIES, RESHAPE TAXATION, MAKE ALTERATIONS IN THE CLOSED SHOP. THEY WOULD CONTINUE TO FEAR THAT MOVES TO CUT PUBLIC EXPENDITURES MEANT AN INCREASE IN UNEMPLOYMENT; TRADE UNIONISTS, WITHOUT THE SHELTERING UMBRELLA OF THE SOCIAL CONTRACT, WOULD UNDOUBTEDLY BE LESS ABLE TO TOLERATE HIGH LEVELS OF AND PERHAPS INCREASES IN UNEMPLOYMENT UNDER A TORY GOVERNMENT (FOR AN ASSESSMENT OF CONSERVATIVE AND TUC VIEWS OF PROSPECTS FOR GOOD WORKING RELATIONS BETWEEN THE TORIES AND THE UNIONS, SEE LONDON 19585 AND 17740).

14. AT THE SAME TIME, SOME DOUBT MUST ALSO BE CAST ON CONSERVATIVE PLANS TO REVITALIZE INDUSTRY BY INCREASING PROFITABILITY, ENCOURAGING INVESTMENT THROUGH RAISING PROFITS, REVITALIZING PRIVATE ENTERPRISE AND PUTTING NATIONALIZED INDUSTRIES ON A SOUND COMMERCIAL BASIS. LAUDABLE THOUGH THESE AIMS MAY BE, THEY COULD NOT BE ACHIEVED OVERNIGHT AND MANY OF THEM WILL NOT BE EASILY ACHIEVED AT ALL.

15. FROM A PURELY ABSTRACT POINT OF VIEW, THE CONSERVATIVES MAY BE SAYING THE RIGHT THINGS AND THE POLICIES THEY ADVOCATE COULD UNDOUBTEDLY BRING BENEFITS IN THE LONG RUN TO THE BRITISH ECONOMY. AT THE SAME TIME, IT MUST BE NOTED THAT SOME CONSERVATIVE POLICIES (BOTH ECONOMIC AS WELL AS SOCIAL) WILL TEND TO BE DIVISIVE, PERHAPS LEADING TO INCREASED STRAINS IN BRITISH SOCIETY. THE SAME CONSTRAINTS THAT APPLY TO THE PRESENT GOVERNMENT'S ECONOMIC STRATEGY (REFERENCE LONDON 17660), HOWEVER, WILL CONTINUE TO APPLY AND MAY IN SOME CASES BE CONFIDENTIAL

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INTENSIFIED. WHAT MAY THEORETICALLY APPEAR TO BE THE RIGHT APPROACH TO SOLVING BRITAIN'S ECONOMIC PROBLEMS MAY NOT BE ANY MORE POLITICALLY POSSIBLE FOR THE CONSERVATIVES THAN IT IS FOR THE PRESENT GOVERNMENT.

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## Message Attributes

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